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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
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IN THE MATTER OF THE CONSIDERATION  
PURSUANT TO A.R.S. § 40-252, TO  
MODIFY DECISION NO. 67744 RELATING  
TO THE SELF-BUILD OPTION.

Docket No. E-01345A-07-0420

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the  
Rebuttal Testimony of Stephen Ahearn in the above-referenced matter.

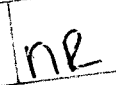
RESPECTFULLY SUBMITTED this 4<sup>th</sup> day of February 2008

  
Scott S. Wakefield  
Chief Counsel

AN ORIGINAL AND THIRTEEN COPIES  
of the foregoing filed this 4<sup>th</sup> day  
of February 2008 with:

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Ernestine Gamble  
Secretary to Scott Wakefield

**ARIZONA PUBLIC SERVICE COMPANY**

**DOCKET NO. E-01345A-07-0420**

**REBUTTAL TESTIMONY**

**OF**

**STEPHEN AHEARN**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**FEBRUARY 4, 2008**

**INTRODUCTION**

Q. Please state your name and business address for the record.

A. My name is Stephen Ahearn. My business address is 1110 West Washington, Suite 220, Phoenix, Arizona 85007.

Q. Have you previously filed testimony in this docket?

A. Yes, I filed direct testimony on January 11, 2008.

Q. What is the purpose of your rebuttal testimony?

A. I respond to elements of the testimonies provided by other parties filed on or after January 11. Specifically, I will address matters raised by the ACC Staff, Arizona Public Service ("Company") and intervenors Sempra and the Electric Generation Alliance.

Q. Please summarize your testimony.

A. As an active participant in the Settlement Agreement, RUCO would not support an outright prohibition on utility self-build of generation. That element of the Settlement Agreement was an important component in RUCO's decision to join as signatory to the agreement. As stated in my direct testimony, the Company is required to show that any proposal to self-build generation must meet a threshold of proof determined by the ACC staff before granting any exemption to the "Moratorium." That check-and-balance relationship rightly places responsibility on the two participants ultimately responsible for the self-build decision, and for dealing with its consequences—the ACC Staff and the Company. The existence

1 of a self-build option should be maintained, although this docket has presented  
2 an ample record of suggested procurement process improvement to achieve the  
3 desired result of a reliable, least cost generation system that is able to take  
4 advantage of markets where they are able to deliver lower prices.

5  
6 Q. What do other parties generally identify as shortcomings of the existing  
7 generation procurement system, and what remedies are the parties proposing?

8 A. Other parties identify weaknesses—real and/or perceived—in the existing  
9 bidding processes that could frustrate procurement success. Electric Generation  
10 Alliance witness Trammel suggests the process can only yield a truly competitive  
11 result if the incumbent is foreclosed from the possibility to self-build, in essence  
12 by removal of the utility opportunity to rig the outcome of the bid process.  
13 Trammel also raises the issue of risk transfer in the event of utility self-build cost  
14 overruns, and suggests several remedies to the perceived shortcomings of the  
15 existing role of Independent Monitors.

16  
17 ACC Staff proposes an administrative tightening of the RFP process through the  
18 utilization of a regime of Best Practices, with the backstop of cost disallowance in  
19 an after-the-fact prudence determination as the ultimate discipline to prevent  
20 utility self-dealing.

1        Sempra joins with Staff in suggesting the adoption of Best Practices, but goes  
2        further than Staff by proposing that they are made a mandatory element of the  
3        procurement process.

4  
5        Conversely, the Company does not acknowledge deficiencies in the existing  
6        process, instead suggesting timetables of varying lengths for approval of a self-  
7        build application, depending on the participation of an Independent Monitor.

8  
9    Q.    What is your response to the concerns of the other parties?

10   A.    Staff has chosen an appropriate remedy for the perceived problems that exist *at*  
11        *this time*. Mandating a Best Practices for this Company alone could be  
12        discriminatory, although RUCO would support the inclusion of the debate about  
13        whether the application of best procurement practices contributes to, and  
14        supports, the achievement of an Integrated Resource Plan in the IRP-related  
15        conversation taking place apart from this docket.

16  
17        If reliance on wholesale markets and independent generation can be proven to  
18        be consistent with, and flexible enough to accommodate, changing regulatory  
19        policy responding to new environmental and resource imperatives, then RUCO  
20        will be supportive of efforts to bolster the independent sector and will support  
21        strengthening of the procurement process—possibly including a more aggressive  
22        role of an independent monitor as envisioned by intervenor Electric Generation  
23        Alliance. However, this docket will not in itself answer this question, so RUCO

1 supports the intermediate position with respect to Best Practices proposed by the  
2 ACC Staff.

3  
4 Q. Do you have any concluding comments?

5 A. The intervenors in the matter raise legitimate, intuitive concerns about the effect  
6 of the incumbent utility role in determining winning and losing bids. More can be  
7 done to assure the legitimacy of the bidding process, and a good place to begin  
8 is with the adoption of Best Practices and the assurance by the ACC Staff that its  
9 after-the-fact analysis of the bidding process itself will not allow the transfer of  
10 risk to the ratepayer identified by the Alliance.

11  
12 Q. Does this conclude your testimony?

13 A. Yes.  
14